ATLAS
ENGINEERED PRODUCTS LTD.

Unaudited Condensed Interim Consolidated Financial Statements

For the three months ended August 31, 2018 and 2017
(Expressed in Canadian dollars)

NOTICE OF NO AUDITOR REVIEW OF
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the condensed interim consolidated financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management and reviewed by the Audit Committee and Board of Directors of the Company.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed interim consolidated financial statements by an entity's auditor.

Atlas Engineered Products Ltd.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - expressed in Canadian dollars)

	Note	August 31, 2018	May 31, 2018
		$	$
Assets			
Current			
Cash		590,768	867,384
Accounts receivable	**4**	2,524,504	2,008,773
Inventories	**5**	1,509,984	1,347,940
Prepaid expenditures	**6**	613,291	381,876
		5,238,547	4,605,973
Non-current			
Buildings and equipment	**7**	3,831,119	3,212,181
Goodwill	**8**	418,928	418,928
Other intangible assets	**9**	514,242	436,200
Deferred tax asset		535,002	535,002
Total Assets		10,537,838	9,208,284
Liabilities			
Current			
Bank Indebtedness	**10**	815,000	-
Accounts payable and accrued liabilities	**11**	1,942,357	1,468,602
Customer deposits		153,345	111,388
Corporate income taxes payable		108,934	90,202
Current portion of lease obligations	**12, 18**	576,543	568,069
Term debt	**13**	1,650,225	1,704,918
Exchangeable notes – liability portion	**14**	-	292,346
		5,246,404	4,235,525
Non-current			
Lease obligations	**12, 18**	1,127,035	1,274,300
Total Liabilities		6,373,439	5,509,825
Shareholders' Equity			
Share capital	**15(b)**	9,270,221	8,938,703
Contributed surplus	**15(c)**	906,828	696,851
Exchangeable notes – equity portion	**14**	-	19,144
Deficiency		(6,012,650)	(5,956,239)
Total Shareholders' Equity		4,164,399	3,698,459
Total Liabilities and Shareholders' Equity		10,537,838	9,208,284

Nature of operations – Note 1
Subsequent events – Note 23

APPROVED BY THE DIRECTORS ON OCTOBER 17, 2018

DON HUBBARD Director ***GUY CHAMPAGNE*** Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements

Atlas Engineered Products Ltd.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three months ended August 31, 2018 and 2017
(Unaudited - expressed in Canadian dollars)

	Note	August 31, 2018	August 31, 2017
		$	**$**
Revenue	**16**	5,083,058	2,739,058
Cost of sales	**17, 18**	(3,703,033)	(1,999,026)
Gross profit		1,380,025	740,032
Operating expenses			
Administrative and office		145,056	24,948
Depreciation	**7, 9**	77,051	36,305
Filing and transfer agent fees		8,288	-
Management fees	**18**	338,065	-
Professional fees		387,889	117,507
Salaries and benefits	**18**	102,202	40,766
Share-based payments	**15(c), 18**	209,977	-
Travel		79,516	-
Credit card processing costs		40,031	35,653
Operating (loss) income		(8,050)	484,853
Interest earned		10,348	636
Interest expense and other		(46,262)	(5,002)
Accretion expense		(5,154)	(1,505)
Foreign exchange loss		(9,679)	-
Finance charge on leases	**12, 18**	(26,258)	(20,614)
Gain on disposal of equipment		8,824	-
(Loss) income before tax		(76,231)	458,368
Income taxes			
Current income tax recovery (expense)		19,820	(63,487)
Deferred income tax recovery		-	(62,099)
		19,820	(125,586)
Net (loss) income and comprehensive (loss) income for the period		(56,411)	332,782
(Loss) earnings per share			
Basic and diluted		(0.00)	309
Weighted average number of shares outstanding			
Basic and diluted		31,110,731	1,077

The accompanying notes are an integral part of these condensed interim consolidated financial statements

Atlas Engineered Products Ltd.
Condensed Interim Consolidated Statements of Cash Flows
For the three months ended August 31, 2018 and 2017
(Unaudited - expressed in Canadian dollars)

	August 31, 2018	August 31, 2017
	$	$
Cash provided by:		
Operating activities		
Net (loss) income for the period	(56,411)	332,782
Depreciation	197,608	95,764
Accretion expense	5,154	1,505
Deferred tax recovery	-	62,099
Gain on disposal of equipment	(8,824)	-
Share-based payments	209,977	-
Interest on exchangeable note	14,875	-
Changes in non-cash working capital items:		
Accounts receivable	(253,205)	(590,657)
Inventories	31,901	(8,161)
Prepaid expenses	(227,938)	(24,033)
Due to related parties	-	(155,791)
Accounts payable and accrued liabilities	245,189	269,230
Customer deposits	41,957	26,807
Corporate income taxes payable	18,732	63,487
Cash provided by operations	219,015	73,032
Investing activities		
Acquisition of equipment	(3,690)	(17,416)
Satellite acquisition net of cash acquired	(1,039,538)	-
Cash used by investing activities	(1,043,228)	(17,416)
Financing activities		
Repayment of lease obligations	(138,791)	(73,980)
Proceeds from disposal of equipment	9,093	-
Proceeds from exchangeable notes	-	147,500
Proceeds from line of credit	815,000	-
Repayment of term debt	(137,705)	(7,260)
Cash provided by financing activities	547,597	66,260
(Decrease) Increase in cash	(276,616)	121,876
Cash - beginning of period	867,384	234,848
Cash - end of period	590,768	356,724
Cash paid during the period for:		
Interest	52,040	22,722
Income taxes	-	-

Supplemental cash flow information – Note 19

The accompanying notes are an integral part of these condensed interim consolidated financial statements

Atlas Engineered Products Ltd.
Condensed Interim Consolidated Statements of Changes in Equity (Deficit)
(Unaudited - expressed in Canadian dollars)

	Number of Common Shares	Share Capital	Exchangeable Note – Equity Component	Contributed Surplus	Deficiency	Total
	(Note 15)	(Note 15)		(Note 15)		
		$	$	$	$	$
Balance, May 31, 2017	1,010	101	-	-	(424,991)	(424,890)
Exchangeable notes (Note 14)	-	-	19,144	-	-	19,144
Shares issued on the amalgamation with Coastal	200	20	-	-	-	20
Net income for the period	-	-	-	-	332,782	332,782
Balance, August 31, 2017	1,210	121	19,144	-	(92,209)	(72,944)
Recapitalization transactions						
Shares issued on RTO	11,709,091	4,683,636	-	-	-	4,683,636
Exchanged for shares issued to shareholders pursuant to RTO	8,047,764	-	-	-	-	-
Shares cancelled pursuant to RTO	(1,210)	-	-	-	-	-
Shares issued pursuant to private placement	10,566,000	4,226,400	-	-	-	4,226,400
Shares issued as finders fees	407,550	-	-	-	-	-
Add: deferred income tax	-	82,918	-	-	-	82,918
Less: cash share issue costs	-	(54,372)	-	-	-	(54,372)
Share-based payments	-	-	-	696,851	-	696,851
Dividends paid	-	-	-	-	(576,483)	(576,483)
Net loss for the period	-	-	-	-	(5,287,547)	(5,287,547)
Balance, May 31, 2018	30,730,405	8,938,703	19,144	696,851	(5,956,239)	3,698,459
Exchangeable notes (Note 14)	1,521,305	331,518	(19,144)	-	-	312,374
Share-based payments	-	-	-	209,977	-	209,977
Net loss for the period	-	-	-	-	(56,411)	(56,411)
Balance, August 31, 2018	32,251,710	9,270,221	-	906,828	(6,012,650)	4,164,399

The accompanying notes are an integral part of these condensed interim consolidated financial statements

1. Nature of Operations

Atlas Engineered Products Ltd. (the "Company" or "Atlas") was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on January 18, 1999. Atlas Engineered Products Ltd. is a leading manufacturer of trusses and supplier of engineered wood products. Atlas operates manufacturing and distribution facilities in British Columbia and Ontario to meet the needs of residential and commercial builders.

The unaudited condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months.

The Company's corporate office is located at 102 – 6551 Aulds Road, Nanaimo, British Columbia V9T 6K2.

2. Significant Accounting Policies

Basis of presentation

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting* as issued by the International Accounting Standards Board ("IASB"), on a basis consistent with the accounting policies disclosed in the Company's audited Annual Consolidated Financial Statements for the year ended May 31, 2018.

These unaudited condensed interim consolidated financial statements have been prepared under the historical cost basis and are presented in Canadian dollars, which is the functional currency of the Company and its subsidiaries.

The accounts of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

These unaudited condensed interim consolidated financial statements were approved for issue by the Board of Directors on October 17, 2018.

Basis of consolidation

The Company's unaudited condensed interim consolidated financial statements consolidate those of the parent company and all its subsidiaries as of the date that control was obtained over those subsidiaries. Clinton Roof Truss Ltd. ("Clinton") and Satellite Truss Limited ("Satellite") are the two subsidiaries and the Company owns 100% of the issued and outstanding shares of both these subsidiaries.

All transactions and balances between the Companies are eliminated on consolidation, including unrealized gains and losses on transactions between the companies. Amounts reported in the unaudited condensed interim consolidated financial statements of the subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Company.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the period are recognized from the effective date of acquisition, or up to the effective date of disposal, as applicable.

3. Acquisition of Satellite Truss Limited

On August 1, 2018, the Company completed its acquisition of Satellite Truss Limited. ("Satellite") whereby the Company acquired all of the issued and outstanding shares of Satellite for $1,200,000 in cash. Satellite is located in Merrickville, Ontario. Satellite, a manufacturer of roof and floor trusses aligns with the core business of the Company.

(Unaudited - expressed in Canadian dollars)

3. Acquisition of Satellite Truss Limited (continued)

With this location the Company gains access to South Eastern Ontario. This location provides access to the Ottawa area and close to the Quebec & US border. Relationships with new suppliers have been formed that have led to more favourable supplier terms and pricing.

A significant portion of the cash required to complete the transaction will be provided by a mortgage and equipment term loan to be advanced by a major Canadian chartered bank in the subsequent period.

In accordance with IFRS 3, the Satellite acquisition will be accounted for as a business combination. The purchase price allocation has been calculated as follows:

Category	$
Cash	1,200,000
Total consideration	**1,200,000**
Cash	160,462
Accounts receivable	262,526
Inventories	193,945
Prepaids	3,477
Land	250,000
Buildings	340,000
Equipment	211,800
Brand	89,367
Accounts payable and accrued liabilities	(228,565)
Long term debt	(83,012)
	1,200,000

Due to the recent nature of the transaction, the purchase price allocation (“PPA”) calculations are still preliminary and have not been finalized. Values above were determined based on the carrying value of the assets and liabilities at time of acquisition.

Accounts receivable of $262,526 is the fair value of the receivables for material delivered to customers.

The following table shows the results of the operations of Satellite since the acquisition date. Prior to acquisition Satellite was a private company and financial information was impractical to obtain and verify.

	Satellite August 1 - 31, 2018
	$
Sales per consolidated financial statements	223,834
Earnings (Loss) before tax	12,353
Income tax	3,212
Earnings (loss)	9,141

(Unaudited - expressed in Canadian dollars)

4. Accounts receivable

	August 31, 2018	May 31, 2018
	$	$
Trade accounts receivable	2,528,647	1,999,886
Other receivables	721	13,751
Allowance for doubtful accounts	(4,864)	(4,864)
	2,524,504	2,008,773

Movement in the allowance for doubtful accounts balance on trade receivables for the three months ended were as follows:

	August 31, 2018	August 31, 2017
	$	$
Allowance for doubtful accounts, beginning of period	4,864	-
Allowance recognized during the period	-	-
Amounts written off during the period as uncollectable	-	-
Allowance for doubtful accounts, end of period	4,864	-

5. Inventories

	August 31, 2018	May 31, 2018
	$	$
Raw materials	1,050,232	979,348
Work in progress	38,930	34,768
Finished goods	420,822	333,824
	1,509,984	1,347,940

During the three months ended August 31, 2018, $2,968,400 (2017 - $1,571,127) in inventory was expensed through cost of sales.

During the three months ended August 31, 2018 and the year May 31, 2018, it was determined that there was no requirement to write down any raw material, work in progress, or finished goods inventory.

6. Potential Acquisition of Selkirk Truss

On November 16, 2017, the Company entered into a letter of intent (the "Selkirk LOI") with Selkirk Truss (2010) Ltd. ("Selkirk") whereby the Company will acquire all of the issued and outstanding shares of Selkirk for $150,000 in common shares of the Company (the "Consideration Shares"). In addition, the shareholder of Selkirk will be entitled to receive up to an additional $600,000 in common shares of the Company (the "Performance Shares") upon Selkirk achieving the following milestones:

1. $200,000 in common shares of the Company if Selkirk's net income exceeds $150,000 in its 2018 fiscal year end;
2. $200,000 in common shares of the Company if Selkirk's cumulative net income exceeds $400,000 for fiscal 2018 and 2019, and
3. $200,000 in common shares of the Company if Selkirk's cumulative net income exceeds $1,100,000 for fiscal 2018, 2019 and 2020.

Completion of the transaction is subject to a number of conditions, including but not limited to, completion of due diligence, negotiation of definitive agreements in respect of such a transaction and receipt of any required regulatory approvals. As at August 31, 2018, $290,085 has been advanced to Selkirk related to this transaction and is included in prepaid expenditures.

(Unaudited - expressed in Canadian dollars)

7. Buildings and equipment

	Land & Buildings	Office Furniture and Equipment	Vehicles	Production Equipment	Computer Equipment and Software	Signage and Parking Lot	Total
	$	$	$	$	$	$	$
Cost							
Balance, May 31, 2017	1,148,158	97,894	829,110	1,219,952	203,014	191,062	3,689,190
Additions	380,977	1,000	207,415	390,000	18,502	-	997,894
Acquisition through business combination	769,451	8,960	209,500	244,450	-	10,549	1,242,910
Disposals	-	-	(96,154)	-	-	-	(96,154)
Balance, May 31, 2018	2,298,586	107,854	1,149,871	1,854,402	221,516	201,611	5,833,840
Additions	-	-	-	-	3,690	-	3,690
Acquisition through business combination	590,000	12,500	45,000	154,300	-	-	801,800
Disposals	-	-	(15,250)	-	-	-	(15,250)
Balance, August 31, 2018	2,888,586	120,354	1,179,622	2,008,702	225,206	201,611	6,624,081
Accumulated depreciation							
Balance, May 31, 2017	306,174	91,964	367,127	1,027,628	192,595	114,573	2,100,061
Additions	261,379	1,286	127,060	77,465	5,901	6,205	479,296
Acquisition through business combination	8,600	896	31,425	24,445	-	422	65,788
Disposals	-	-	(23,486)	-	-	-	(23,486)
Balance, May 31, 2018	576,153	94,146	502,126	1,129,538	198,496	121,200	2,621,659
Additions	95,614	663	47,753	36,243	1,865	1,625	183,763
Depreciation from business combination	567	104	563	1,286	-	-	2,520
Disposals	-	-	(14,980)	-	-	-	(14,980)
Balance, August 31, 2018	672,334	94,913	535,462	1,167,067	200,361	122,825	2,792,962
Carrying amount at May 31, 2018	1,722,433	13,708	647,745	724,864	23,020	80,411	3,212,181
Carrying amount at August 31, 2018	2,216,252	25,441	644,160	841,635	24,845	78,786	3,831,119

Depreciation for tangible assets during the three months ended August 31, 2018 was $186,283 (2018 - $95,764). During the three months ended August 31, 2018, $120,557 (2017 - $59,459) of the depreciation was included in cost of sales.

(Unaudited - expressed in Canadian dollars)

7. Buildings and equipment (continued)

The above buildings and equipment schedule includes right-of-use assets. The following summarizes those right-of-use assets and their depreciation for the three months ended August 31, 2018 and the year ended May 31, 2017.

	Building	Office Furniture and Equipment	Vehicles	Production Equipment	Total
	$	$	$	$	$
Balance, May 31, 2017	841,984	-	428,331	-	1,270,315
Additions	380,977	1,000	190,000	390,000	961,977
Disposals	-	-	(66,092)	-	(66,092)
Depreciation charge for the year	(261,379)	(100)	(115,666)	(39,000)	(416,145)
Balance, May 31, 2018	961,582	900	436,573	351,000	1,750,055
Depreciation charge for the period	(89,156)	(45)	(31,922)	(17,550)	(138,673)
Balance, August 31, 2018	872,426	855	404,651	333,450	1,611,382

8. Goodwill

As at August 31, 2018, the Company determined that there was no impairment to the goodwill of Clinton due to the recent nature of the transaction and the lack of existence of indicators of impairment.

9. Other intangible assets

	Customer Relationships	Brand	Total
	$	$	$
Cost			
Balance, May 31, 2017	-	-	-
Additions	333,000	120,000	453,000
Balance, May 31, 2018	333,000	120,000	453,000
Additions (Note 3)	-	89,367	89,367
Balance, August 31, 2018	333,000	209,367	542,367
Accumulated Depreciation			
Balance, May 31, 2017	-	-	-
Additions	13,800	3,000	16,800
Balance, May 31, 2018	13,800	3,000	16,800
Additions	8,325	3,000	11,325
Balance, August 31, 2018	22,125	6,000	28,125
Carrying amount at May 31, 2018	319,200	117,000	436,200
Carrying amount at August 31, 2018	310,875	203,367	514,242

As at August 31, 2018, the Company determined that there was no impairment to the brand and customer relationships of Clinton and Satellite due to the recent nature of the transaction.

(Unaudited - expressed in Canadian dollars)

10. Bank Indebtedness

During the three month period ended August 31, 2018, the Company was approved for a $1 million line of credit with no set terms of repayment. Interest rate on this line of credit is 5.45%. As of August 31, 2018, the Company had used $815,000 of its line of credit. The funds were used to finance the Satellite acquisition and will be returned to the line of credit once a term loan and mortgage are finalized in relation to the Satellite acquisition.

11. Accounts payable and accrued liabilities

	August 31, 2018	May 31, 2018
	$	$
Trade accounts payable	1,476,513	1,091,902
Sales taxes payable	182,105	136,846
Salaries and vacation payable	123,200	93,956
Other accounts payable	24,036	10,648
Accrued liabilities	136,503	135,250
	1,942,357	1,468,602

12. Lease obligations

The Company's main manufacturing plants and certain equipment are held under finance lease arrangements. The terms and the outstanding balances of the lease obligations as at August 31, 2018 and May 31, 2018 are as follows:

	August 31, 2018	May 31, 2018
	$	$
Building under right-of-use asset lease repayable in monthly instalments of $22,000 inclusive of implied interest of 6.20% per annum, residual value of $nil, maturing in January 2021 (Note 18)	592,277	648,706
Building under right-of-use asset lease repayable in monthly instalments of $11,500 inclusive of implied interest of 5.95% per annum, residual value of $nil, maturing in February 2021	320,464	350,003
Vehicle under right-of-use asset lease repayable in monthly instalments of $2,021 with interest of 8.0% per annum, residual value of $16,000, maturing May 2020	43,232	48,359
Vehicle under right-of-use asset lease repayable in monthly instalments of $4,879 with interest of 9.1% per annum, residual value of $51,000, maturing November 2020	160,255	171,072
Vehicle under right-of-use asset lease repayable in monthly instalments of $1,354 with interest of 4.6% per annum, residual value of $16,500, maturing October 2021	62,066	65,389
Vehicle and equipment under right-of-use asset lease repayable in monthly instalments of $13,262 with interest of 4.6% per annum, maturing October 2021	525,284	558,840
Total lease obligation	1,703,578	1,842,369
Current portion	(576,543)	(568,069)
Non-current portion	1,127,035	1,274,300

(Unaudited - expressed in Canadian dollars)

12. Lease obligations (continued)

The following is a schedule of the total lease payments made during the three months ended August 31, 2018 and 2017:

	August 31, 2018	August 31, 2017
	$	$
Principal payment	138,791	73,980
Finance charge	26,259	20,614
Total lease payments	165,050	94,594

During the three months ended August 31, 2018 and 2017, no assets under a right-of-use asset lease were acquired.

The following is a schedule of the Company's future minimum lease payments related to the building, equipment, and vehicles under finance lease:

	August 31, 2018
	$
2019	495,151
2020	664,073
2021	535,171
2022	155,890
2023	-
Total minimum lease payments	1,850,285
Less: imputed interest	(146,707)
Total present value of minimum lease payments	1,703,578

13. Term debt

The term debt consists of the following:

	August 31, 2018	May 31, 2018
	$	$
RBC loan – 1[1]	1,098,532	1,149,217
RBC loan – 2[2]	551,693	555,701
	1,650,225	1,704,918
Less current portion of term debt	(1,650,225)	(1,704,918)
Total long-term portion of term debt	-	-

1. A term loan with a major Canadian bank bearing interest at a floating base rate (6.20% as at August 31, 2018) repayable at approximately $22,647 per month with the initial term ending February 2019. The loan is amortized over 61 months. The loan is secured by a general security interest granted by the Company, with a security on the equipment of Clinton Roof Truss Ltd.
2. A mortgage with a major Canadian bank bearing interest at a floating base rate (4.7% as at August 31, 2018) repayable at approximately $3,453 per month with the initial term ending February 2019. The mortgage is amortized over 248 months. The loan is secured by a general security interest granted by the Company, with a security on the land and building.

The term debt contains two financial covenants. A debt service coverage ratio of not less than 1.25 to 1 and a current ratio of not less than 1.4 to 1. As at August 31, 2018, the Company was in compliance with the debt service coverage ratio and offside with the current ratio, but the bank has granted forbearance on this.

14. Exchangeable notes

On August 9, 2017, Atlas issued exchangeable notes in the principal amount $147,500 to individuals who have since become shareholders of the Company. The principal amount of the exchange notes is exchangeable into one unit for a price of $0.20 per unit. Each unit consists of one common share and one warrant. Each warrant is exercisable at a price of $0.40 per share for a period of one year. The notes matured on August 9, 2018 and the individuals have converted the exchangeable note plus interest for the year into 754,260 common shares.

On August 9, 2017, Atlas issued an exchangeable note in the principal amount of $150,000 to a shareholder of the Company. The principal amount of the exchangeable note is exchangeable into one common share for a price of $0.20 per share of the resulting company upon completion of the Transaction. The note matured on August 9, 2018 and the individual has converted the exchangeable note plus interest for the year into 767,045 common shares.

Upon initial recognition, the debt component of $271,630 of the exchangeable notes was calculated by discounting the future cash flows of interest and principal at a rate of 15%, which represents management's best estimate of the interest rate to be used.

The value of the equity portion of the exchangeable notes was obtained by using the residual method. The net proceeds of $19,144, net of the fair value of the debt component and deferred income tax, was allocated to the exchangeable notes upon initial recognition and recognized as a component of equity.

The estimated amortized cost of the exchangeable notes at August 31, 2018 is $297,500, which includes accretion of $20,716, and has been determined based on management's best estimate of amortized cost. For the three month period ended August 31, 2018, the amount of interest incurred from the exchangeable notes was $14,875.

15. Share capital

a) Authorized

Unlimited common shares without par value.

b) Share capital transactions

On August 9, 2018, exchangeable notes plus interest totalling $312,374 was converted to 1,521,305 common shares.

c) Options

The Company has adopted a share option plan that allows for the issuance of up to 10% of the issued and outstanding shares as incentive share options to directors, officers, employees and consultants to the Company. Share options granted under the plan may be subject to vesting provisions as determined by the Board of Directors. Standard vesting provisions are in thirds every 6 months from the date of grant. The options are priced using the trading price at the end of the close on the date of the grant and they are exercisable within 5 years from the date of grant.

(Unaudited - expressed in Canadian dollars)

15. Share capital (continued)

c) Options (continued)

The Company's share options outstanding as at August 31, 2018 and May 31, 2018 and the changes for the periods then ended are as follows:

	Number	Weighted average exercise price
		$
Balance as at May 31, 2018	2,889,167	0.53
Granted	-	-
Forfeited	(89,167)	0.51
Balance as at August 31, 2018	2,800,000	0.54

The total share-based payment expense recorded during the three months ended August 31, 2018 was $209,977 (2017: $Nil).

The following table summarizes information about the share options as at May 31, 2018:

Exercise price per share of options outstanding	Number of options outstanding	Weighted average remaining life (years) options outstanding	Weighted exercise price of options exercisable	Number of options exercisable	Expiry date
$0.49	1,577,500	4.19	$0.49	525,824	November 8, 2022
$0.60	450,000	4.43	$0.60	149,998	February 5, 2023
$0.53	302,500	4.48	$0.53	100,830	February 21, 2023
$0.65	370,000	4.63	-	-	April 18, 2023
$0.55	100,000	4.63	-	-	April 18, 2023
$0.56	2,800,000	4.33	$0.52	776,652	

The Black-Scholes Pricing Model was used to estimate the fair value of the share options using the following assumptions on the grant date of the options:

Issue date	Expected option life (years)	Risk free interest rate	Dividend yield	Expected volatility	Expected forfeiture rate	Weighted average fair value
November 8, 2017	5.00	1.60%	Nil	146%	0.00%	$0.44
February 5, 2018	5.00	1.60%	Nil	132%	0.00%	$0.47
February 21, 2018	5.00	1.60%	Nil	132%	0.00%	$0.46
April 18, 2018	5.00	1.60%	Nil	132%	0.00%	$0.47
April 18, 2018	5.00	1.60%	Nil	132%	0.00%	$0.46

Volatility was determined using the historical volatility rate of the Company.

(Unaudited - expressed in Canadian dollars)

16. Revenue

The Company operates in two geographical regions located in Canada. Western Canada which presently includes British Columbia and Alberta and Eastern Canada which presently includes Ontario.

The Company has two distinct revenue streams. Regional information of the Company's revenues for the months ended August 31, 2018 and 2017 is as follows:

Three months ended August 31, 2018

	Trusses	Engineered wood products	Total
	$	$	$
Western Canada	2,344,607	900,614	3,245,221
Eastern Canada	1,717,286	120,551	1,837,837
Total revenue	4,061,893	1,021,165	5,083,058

Three months ended August 31, 2017

	Trusses	Engineered wood products	Total
	$	$	$
Western Canada	1,998,599	740,459	2,739,058

17. Cost of sales

Cost of sales is broken down for the three months ended as follows:

	August 31, 2018	August 31, 2017
	$	$
Materials	2,501,142	1,256,351
Labour	881,589	422,661
Fuel, maintenance, and overhead	199,745	260,555
Amortization	120,557	59,459
Total cost of sales	3,703,033	1,999,026

18. Related party transactions

The Company's related parties consist of the Company's directors and officers, and any companies associated with them. Key management personnel includes directors and executive officers of the Company. Other than the amounts disclosed below, there was no other compensation paid or payable to key management personnel for the reported periods.

(Unaudited - expressed in Canadian dollars)

18. Related party transactions (continued)

The Company incurred the following charges during the three months ended August 31, 2018 and 2017:

	August 31, 2018	August 31, 2017
	$	$
Salaries and benefits	50,000	27,692
Management fees	109,000	-
Cost of sales	-	68,872
Finance charge on leases	9,570	12,894
Share-based payments	162,645	-
Interest expense	-	-
Total related party transactions	331,215	109,458

Due to/from related parties

Amounts due to/from related parties are detailed as follows:

	Three months ended August 31, 2018	May 31, 2018
	$	$
Due from related party		
Accounts receivable	-	23,797
Total due from related party	-	23,797
Due to related parties		
Accounts payable and accrued liabilities	-	(1,040)
Exchangeable note – liability portion (Note 14)	-	(49,134)
Lease obligation (Note 12)	(592,277)	(648,706)
Total due to related parties	(592,277)	(698,880)

These amounts were incurred in the normal course of operations and are recorded at exchange amounts. Accounts receivable and accounts payable and accrued liabilities are unsecured, non-interest bearing, and have no set terms of repayment.

19. Supplemental cash flow information

Investing and financing activities that do not have a direct impact on the current cash flows are excluded from the cash flow statements. During the three months ended August 31, 2018 and 2017 the Company had the following non-cash investing and financing activities:

Three months ended August 31, 2018

- The issuance of 1,521,305 common shares valued at $312,375 pursuant to the exchangeable notes conversion (Note 14).

Three months ended August 31, 2017

- $150,000 in long-term debt was converted into an exchangeable note (Note 14).

(Unaudited - expressed in Canadian dollars)

20. Reconciliation of liabilities arising from financing activities

The changes in the Company's liabilities arising from financing activities can be classified as follows:

	Term debt	**Lease obligations**	**Total**
	$	**$**	**$**
Balance June 1, 2018	1,704,918	1,842,369	3,547,287
Repayments	(137,705)	(138,791)	(276,496)
Issuance	83,012	-	83,012
Non-cash – change lease	-	-	-
Balance August 31, 2018	1,650,225	1,703,578	3,353,803

	Term debt	**Lease obligations**	**Total**
	$	**$**	**$**
Balance June 1, 2017	531,981	1,298,540	1,830,521
Transfer to exchangeable note	(150,000)	-	(150,000)
Repayments	(437,063)	(351,554)	(788,617)
Issuance	1,760,000	961,977	2,721,977
Non-cash – change lease	-	(66,594)	(66,594)
Balance May 31, 2018	1,704,918	1,842,369	3,547,287

21. Financial instruments

Classification of financial instruments

The Company's financial instruments consist of cash, trade accounts receivable, bank indebtedness, accounts payable and accrued liabilities, customer deposits, and term debt. The Company classified and measured its cash and accounts receivable at amortized cost. The bank indebtedness, accounts payable and accrued liabilities, customer deposits, and term debt are classified and measured at amortized cost.

The Company thoroughly examines the various financial instruments and risks to which it is exposed and assesses the impact and likelihood of those risks. These risks include interest rate risk, credit risk, and liquidity risk. Where material, these risks are reviewed and monitored by the Board of Directors who actively focus on securing the Company's cash flows by minimizing the exposure to volatile financial instrument risks.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's policy is to minimize interest rate risk exposures on term financing. All leases and exchangeable notes have fixed rates. As at August 31, 2018, the Company is exposed to changes in market interest rates through the bank borrowings at a floating base rate. This risk is low because changes in the prime rate are not substantial and increases would not impact the consolidated financial statements significantly. If the rates were to increase 10% this would result in an increase in interest of approximately $9,200 over the current fiscal year.

(Unaudited - expressed in Canadian dollars)

21. Financial instruments (continued)

Credit risk

Credit risk is the risk that a counterparty fails to meet its contractual obligation to the Company. The Company Is exposed to the risk for various financial instruments through receivables from customers and placing deposits and the potential for cash fraud. The Company's maximum exposure to credit risk is limited to the carrying amount of financial assets recognized for the three months ended August 31, 2018 and year ended May 31, 2017 summarized below:

	August 31, 2018	May 31, 2018
	$	$
Classes of financial assets – carrying amounts		
Cash	590,768	867,387
Trade accounts receivable, net of allowance for doubtful accounts	2,523,783	1,995,022
	3,114,551	2,862,409

The Company continuously monitors defaults of customers, identified individually, and incorporates this information into its credit risk controls. Where available at reasonable cost, external credit ratings and credit checks are obtained and used. The Company's policy is to deal only with creditworthy customers. The Company also closely monitors cash by applying a sweep account function to the subsidiary accounts and a daily bank reconciliation.

The Company has certain trade receivables that have not been settled by the contractual due date but are not considered to be impaired. The receivables and their aging as at August 31, 2018 and May 31, 2017 is summarized below:

	August 31, 2018	May 31, 2018
	$	$
Trade accounts receivable, net of allowance for doubtful accounts		
Current	1,383,790	1,405,682
Past due 1 to 30 days	639,374	335,018
Past due 31 to 60 days	247,507	111,442
Past due 61 to 90 days	117,823	37,388
Past due over 91 days	135,289	105,492
	2,523,783	1,995,022

Liquidity risk

Liquidity risk is that the Company will encounter difficulty in meeting its financial obligations. The Company may be exposed to liquidity risks if it is unable to collect its trade and other receivables balances in a timely manner, which could in turn impact the Company's long-term ability to meeting commitments under its current facilities. The Company manages its liquidity needs by monitoring scheduled debt servicing payments for long-term financial liabilities and debt servicing ratios. The Company also forecasts and manages cash inflows and outflows on a daily, weekly and monthly basis.

The Company considers expected cash flows from financial assets in assessing and managing liquidity risk, in particular its cash resources and trade receivables. The Company's existing cash resources and trade receivables exceeds the current cash outflow requirements as our current ratio is currently 1.45:1. Cash flows from trade accounts receivables are all contractually due within thirty days.

(Unaudited - expressed in Canadian dollars)

21. Financial instruments (continued)

Liquidity risk (continued)

As at August 31, 2018, the Company's non-derivative financial liabilities have contractual maturities (including interest payments where applicable) as summarized below:

	Current	Current	Non-current	Non-current
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
	$	$	$	$
Finance lease obligations	330,100	330,100	1,190,085	-
Bank indebtedness	815,000	-	-	-
Accounts payable and accrued liabilities	1,942,357	-	-	-
Corporate income taxes payable	108,934	-	-	-
Term debt	156,600	1,493,625	-	-
Total	3,352,991	1,823,725	1,190,085	-

This compares to the maturity of the Company's non-derivative financial liabilities as at May 31, 2018 as follows:

	Current	Current	Non-current	Non-current
	Within 6 months	6 to 12 months	1 to 5 years	Later than 5 years
	$	$	$	$
Finance lease obligations	330,100	330,100	1,355,134	-
Accounts payable and accrued liabilities	1,468,602	-	-	-
Corporate income taxes payable	90,202	-	-	-
Term debt	156,600	1,615,932	-	-
Total	2,045,504	1,946,032	1,355,134	-

The above amounts reflect the contractual undiscounted cash flows, which may differ from the carrying values of the liabilities at the reporting date.

22. Management of capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to continue operations. In the management of capital, the Company includes its components of term debt, lease obligations, cash and equity.

The amounts managed as capital by the Company are summarized as follows:

	August 31, 2018	May 31, 2018
	$	$
Term debt	1,650,225	1,704,918
Lease obligations	1,703,578	1,842,369
Bank Indebtedness	815,000	-
Less: Cash and cash equivalents	(590,768)	(867,384)
Net debt	3,578,035	2,679,903
Total equity	4,164,399	3,698,459
	7,742,434	6,378,362

(Unaudited - expressed in Canadian dollars)

22. Management of capital (continued)

The Company maintains and adjusts its capital structure based on changes in economic conditions and the Company's planned requirements. The Company may adjust its capital structure by issuing new equity, issuing new debt, or acquiring or disposing of assets, and controlling its expenses.

Management reviews its capital management policies on an ongoing basis.

23. Subsequent events

a) Acquisition of Coastal Windows Ltd.

On October 1, 2018, the Company completed its acquisition of Coastal Windows Ltd. ("Coastal") (BC Incorp. No. 1119866) whereby the Company acquired all the issued and outstanding shares of Coastal for $650,000 consisting of $250,000 in cash and $400,000 in Atlas common shares. This is the new Coastal and the Company is acquiring all assets and operations of the window manufacturing business with this share purchase.

With this division the Company gains access to the window market. This allows the Company to offer their customers more products that will allow them to complete their projects with fewer suppliers.

In accordance with IFRS 3, the Coastal acquisition will be accounted for as a business combination. The purchase price allocation has been estimated as follows:

Category	$
Cash	250,000
Shares	400,000
Total consideration	**650,000**
Cash	19,223
Accounts receivable	241,402
Inventories	138,344
Equipment	246,030
Brand	127,760
Accounts payable and accrued liabilities	(122,759)
	650,000

Due to the recent nature of the transaction and that the purchase price allocation ("PPA") calculations are still preliminary and have not been finalized. Values above were determined based on the carrying value of the assets and liabilities at time of acquisition.

b) Potential acquisition of Tandelle Specialty Inc. and Pacer Building Components Inc.

On August 14, 2018, the Company entered into a definitive agreement (the "Tandelle-Pacer DA") with Tandelle Specialty Inc. and Pacer Building Components Inc. ("Tandelle-Pacer") whereby the Company will acquire all of the issued and outstanding shares of Tandelle-Pacer for $8,100,000 cash and $500,000 of Atlas common shares. Completion of the transaction is subject to a number of conditions, including but not limited to, completion of due diligence and receipt of any required regulatory approvals.